

Message Text

CONFIDENTIAL

PAGE 01 STATE 008312
ORIGIN EB-07

INFO OCT-01 ISO-00 /008 R

66011

DRAFTED BY EB/FTD:CANGEVINE:CSH
APPROVED BY EB/FTD:CANGEVINE
-----140104Z 035068 /72

R 132228Z JAN 77

FM SECSTATE WASHDC
TO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 008312

FOL RPT OTTAWA 0094 ACTION SECSTATE INFO GENEVA EC BRUSSELS
11 JAN QUOTE

C O N F I D E N T I A L OTTAWA 0094

GENEVA FOR PHELAN

FROM SMITH/STR

E.O. 11652: GDS
TAGS: ETRD, CA
SUBJ: TEXTILES: MFA RENEWAL DISCUSSIONS WITH GOC

1. SUMMARY: GOC DOES NOT BELIEVE MFA-TYPE SOLUTIONS
ARE ADEQUATE TO MEET PROBLEMS OF DOMESTIC TEXTILE
INDUSTRY AND MAY OPT OUT OF MFA UNLESS IT CAN OBTAIN
MODIFICATIONS IN TEXT. SUGGEST WASHINGTON AGENCIES
CONSIDER IMPLICATIONS OF GOC WITHDRAWAL AND WHAT CAN
BE DONE TO BRIDGE GAP IN USG AND GOC APPROACHES TO
MFA RENEWAL. END SUMMARY.

2. AT LUNCHEON JANUARY 10 WITH DOUGLAS ARTHUR, GOC
TEXTILE NEGOTIATOR AND AARON SARNA, INDUSTRY, TRADE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 008312

AND COMMERCE (ITC) GATT OFFICE, LEARY OF EMBASSY,
WESTON OF STATE AND SMITH OF STR DISCUSSED AT LENGTH
MFA RENEWAL AND GAINED FOLLOWING IMPRESSIONS OF CURRENT
GOC THINKING TOWARD RENEWAL.

3. GOC IS HARD PRESSED TO JUSTIFY ITS CONTINUED
ADHERENCE TO WHAT ARTHUR CALLED A BAD AGREEMENT.

ARTHUR SAID CERTAIN GOC OFFICIALS ARE QUESTIONING WHY GOC EVER AGREED TO MFA IN THE FIRST PLACE, WITH SUCH BUILT-IN FACOTRS AS MINIMUM SIX PERCENT GROWTH, SWING, AND CARRY-OVER PROVISIONS. THE GOC SIMPLY COULD NOT TOLERATE SUCH PROVISIONS GIVEN THE PRESENT CANADIAN TEXTILE SITUATION -- THE HIGH IMPORT PENETRATION RATIOS (52 PERCENT IN APPAREL) AND UNDER UTILIZATION OF DOMESTIC PRODUCTION CAPACITY (ONLY 49 PERCENT).

4. ARTHUR CONTINUED THAT HE THOUGHT THE ONLY WAY GOC COULD SEE ITS WAY CLEAR TO CONTINUED MFA PARTICIPATION WAS BY GAINING TWO MODIFICATIONS TO PRESENT MFA TEXT. THE FIRST WOULD PERMIT DIFFERENTIAL IMPORT GROWTH RATES DEPENDING UPON THE HEIGHT OF THE IMPORT PENETRATION RATIO IN THE PRODUCT CONCERNED, THE GROWTH OF DOMESTIC PRODUCTION, AND PROSPECTS FOR DOMESTIC CONSUMPTION. THE SECOND WOULD PERMIT LOWER BASE RATES THAN CURRENT ACTUAL TRADE FOR BILATERAL ARTICLE 4 AGREEMENTS. WITHOUT THESE TWO IMPORTANT CHANGES, ARTHUR FELT THE GOC WOULD BE BETTER SERVED BY RELIANCE ON GATT ARTICLE XIX WHICH, HE ADDED, WAS MORE EQUITABLE ANYWAY.

5. ARTHUR ALSO REPEATED MANY OF THE ARGUMENTS ON THE MFA WHICH CANADA, SINCE THE 1973 DAYS WITH MCKENNIREY, HAS PRESENTED SUCH AS:

A. CANADA DOES NOT HAVE THE SAME "CLOUT"
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 008312

AS THE U.S. AND HENCE CANNOT EFFECTIVELY NEGOTIATE SOUND ARTICLE 4 BILATERALS.

B. EVEN IF THE GOC HAD THIS CLOUT, IT DOESN'T HAVE THE PERSONNEL AND/OR TIME.

C. THE MFA IS REALLY A "BIG BOYS' AGREEMENT" I.E., IT WORKS WELL FOR BIG IMPORTING AND EXPORTING COUNTRIES BUT NOT FOR SMALL AND MEDIUM SIZED COUNTRIES.

D. THE MFA ALSO WORKS WELL FOR IMPORTING COUNTRIES LIKE THE USA WHICH HAVE RELATIVELY LOW IMPORT PENETRATION LEVELS BUT FOR COUNTRIES LIKE CANADA, WITH MUCH HIGHER I/P RATIOS, IT DOESN'T. HE CITED THE FAMILIAR MEYNELL ANALOGY OF 6 PERCENT OF 50 IS HIGHER THAN 6 PERCENT OF 10 IN TERMS OF ANNUAL GROWTH.

6. ARTHUR STATED THAT THE GOC TOOK THE RECENT ARTICLE

XIX ACTIONS BECAUSE (A) THERE ARE INHERENT DIFFICULTIES TO THE GOC IN TAKING PROMPT ACTION UNDER THE MFA (TEXTILE POLICY OF 1970 PREVENTS GOC FROM TAKING EMERGENCY ACTION OR EVEN NEGOTIATING BILATERAL RESTRAINT ARRANGEMENTS WITHOUT PRIOR FINDING OF MARKET DISRUPTION BY TEXTILES AND CLOTHING BOARD) AND, MORE IMPORTANTLY (B) THE MFA DID NOT PERMIT ROLLBACKS. THIS APPEARS TO BE THE REAL KEY TO THE GOC POSITION ON THE MFA -- THE INABILITY OF A MFA PARTICIPATING IMPORTING COUNTRY TO ROLL BACK THE TRADE LEVELS TO LEVELS IT FEELS (FOR POLITICAL AND/OR ECONOMIC REASONS) IT CAN TOLERATE AS A BASIS FOR NORMALIZING THE SITUATION UNDER ARTICLE 4 AGREEMENTS.

7. CONTINUING HIS NEGATIVE ARGUMENTS ABOUT THE MFA, ARTHUR HAD SOME UNKIND WORDS FOR THE TEXTILES COMMITTEE CHAIRMAN, ESPECIALLY LONG'S INSISTENCE THAT CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 008312

THE TC DISCUSS CANADA'S GATT ARTICLE XIX ACTIONS OF NOVEMBER 29. ARTHUR SAID THE GOC DELEGATION SHOULD REALLY HAVE REPAIRED TO THE BAR DURING THAT DEBATE. HE THEN WENT ON TO DISPARAGE THE TSB IN TONES SIMILAR TO THOSE HEARD THIS PAST DECEMBER IN GENEVA. HE DID NOT, CURIOUSLY, REPEAT THE GOC'S EARLIER INSISTENCE FOR A PERMANENT SEAT. (COMMENT: MAYBE BECAUSE HE DOESN'T FORESEE CANADA STAYING IN THE MFA. END COMMENT.)

8. WHEN U.S. SIDE INDICATED ITS BELIEF THAT SIGNIFICANT MODIFICATIONS TO MFA TEXT DID NOT APPEAR NEGOTIABLE, ARTHUR REACTED SHARPLY, IN ESSENCE SAYING THAT LDCS HAD TO BE BROUGHT BACK TO REALITY, THAT THEY HAD TO UNDERSTAND THAT GROWTH AND INCREASED ACCESS AD INFINITUM INTO DEVELOPED COUNTRIES' TEXTILE MARKETS WERE SIMPLY NOT POSSIBLE EITHER POLITICALLY OR ECONOMICALLY. THE MFA HAD TO TAKE THIS INTO ACCOUNT.

9. ARTHUR AND SARNA WILL DEPART FOR GENEVA THIS COMING SUNDAY FOR THE SEVEN PLUS SEVEN TEXTILES MEETING. ARTHUR INDICATED HE WILL HAVE FIRM PROPOSALS TO MAKE DURING THE MEETING, AGAIN PRESUMABLY REGARDING DIFFERENTIAL GROWTH RATES AND LOWER BASE LEVELS.

10. COMMENT: AS EVIDENCED FROM THE ABOVE, ARTHUR'S STATEMENTS CAN HARDLY BE CHARACTERIZED AS ENCOURAGING VIS-A-VIS THE GOC'S CONTINUED PARTICIPATION IN THE MFA. CLEARLY, THE GOC FEELS ITSELF UNDER CONSIDERABLE POLITICAL PRESSURE

TO REVERSE THE TEXTILE IMPORT TRENDS HERE, AND IT SEEMS QUITE WILLING TO SHUNT ASIDE ITS MFA OBLIGATIONS TO DO THIS. IT DOES NOT APPEAR THAT GOC REALLY FEELS ITS RECENT GATT ARTICLE XIX ACTIONS WILL DO MUCH MORE THAN "STABILIZE" THE SITUATION (ARTHUR'S WORDS) BUT AS SHOWN BY CANADIAN INDUSTRY'S POSITIVE CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 008312

REACTION TO THE RECENT GOC MEASURES, THE GOC HAS AT LEAST GIVEN THE APPEARANCE OF TAKING FIRM, POSITIVE ACTION.

11. OF GREATER CONCERN TO THE USG IS THE GOC'S CURRENT NEGATIVE STANCE TOWARD (OR AT LEAST, CONSIDERABLE LACK OF ENTHUSIASM FOR) THE MFA. WHILE IT MAY BE MISLEADING TO ASSUME THAT ARTHUR HAS THE FINAL GOC WORD ON MFA PARTICIPATION, IT IS OBVIOUS THAT KEY GOC DECISION-MAKERS -- IN PARTICULAR INDUSTRY, TRADE AND COMMERCE MINISTER JEAN CHRETIEN -- DO NOT CONSIDER MFA-TYPE SOLUTIONS ADEQUATE FOR CANADA'S CURRENT PROBLEMS. INDEED, UNLESS THE GOC GETS THE MFA CHANGES IT WANTS, THERE IS A LEGITIMATE POSSIBILITY THE GOC WILL NOT STAY IN THE MFA -- AT LEAST THAT IS THE MESSAGE ARTHUR AND HIS COLLEAGUES ARE SIGNALLING RATHER POINTEDLY.

12. WE MUST ASSUME THAT ARTHUR'S AGGRESSIVE STANCE IS MORE THAN SIMPLY A TOUGH BARGAINING POSITION AND, HENCE IT DOES NOT SEEM PREMATURE FOR INTERESTED WASHINGTON AGENCIES TO MULL OVER THE IMPLICATIONS TO THE U.S. SHOULD THE GOC DECIDE TO LEAVE THE MFA. IT IS ONE THING FOR THE AUSTRALIANS TO THREATEN TO LEAVE: SINCE THEY HAVEN'T ABIDED WITH THE MFA SINCE DAY ONE, SOME INCLUDING OLIVIER LONG WOULD SAY THEIR PRESENCE WOULD NOT BE MISSED. HOWEVER, IT IS PRESUMABLY QUITE ANOTHER THING FROM A U.S. GOVERNMENT, INDUSTRY, AND LABOR UNION VIEWPOINT IF THE CANADIANS WERE TO OPT OUT. PROBLEM WOULD BECOME EVEN MORE ACUTE IF THE COMMUNITY EITHER DIGS ITS HEELS IN OVER MFA MODIFICATIONS OR, IN CERTAIN CASES AT LEAST, SUCH AS THE PHASE-OUT PROGRAMS, CONTINUES TO HONOR THE MFA MORE IN THE BREACH.

13. IN ANY EVENT, IT DOES SEEM CLEAR THAT IN TEXTILE AND MFA TERMS, WE HAVE A DELICATE PROBLEM ON OUR HANDS WITH THE CANADIANS AND THAT WE MUST THINK THROUGH CAREFULLY HOW WE CAN AND/OR SHOULD BRIDGE THE GAP IN OUR APPROACHES TO THE MFA RENEWAL QUESTION. END COMMENT.

ENDERS

CONFIDENTIAL

CONFIDENTIAL

PAGE 06 STATE 008312

UNQUOTE KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, POLICIES, TEXTILES, DIPLOMATIC DISCUSSIONS, SOCIAL RECEPTIONS, TRADE CONTROLS
Control Number: n/a
Copy: SINGLE
Sent Date: 13-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE008312
Document Source: CORE
Document Unique ID: 00
Drafter: CANGEVINE:CSH
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770013-1310
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770154/aaaabuyo.tel
Line Count: 225
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9f0505da-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 20-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3603560
Secure: OPEN
Status: NATIVE
Subject: TEXTILES: MFA RENEWAL DISCUSSIONS WITH GOC
TAGS: ETRD, CA, US
To: LONDON
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9f0505da-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009